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Semiconductor Manufacturing International Corporation
中 芯 國 際 集 成 電 路 製 造 有 限 公 司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 981)

**MAJOR TRANSACTION AND
CONTINUING CONNECTED TRANSACTIONS IN RELATION TO
SINO IC LEASING FRAMEWORK AGREEMENT**

FRAMEWORK AGREEMENT

Reference is made to the announcements of the Company dated 30 March 2016 and 10 August 2016 and the circular of the Company dated 26 July 2016 in relation to the 2016 Framework Agreement entered into between the Company and Sino IC Leasing. As the 2016 Framework Agreement will expire on 31 December 2020, the Company and Sino IC Leasing agreed to renew and continue the transactions originally covered under the 2016 Framework Agreement by entering into the Framework Agreement. The Company announces that on 4 September 2020, the Company (on behalf of itself and entities within the scope of its consolidated accounting statements) and Sino IC Leasing (on behalf of itself and its subsidiaries) entered into the Framework Agreement, pursuant to which Sino IC Leasing will provide to the Company a range of financial services (including but not limited to leasing and factoring) and certain other related services (including but not limited to financial advisory and consulting services). The Framework Agreement is for a term of five years commencing on 1 January 2021 and ending on 31 December 2025.

IMPLICATIONS UNDER THE LISTING RULES

As China IC Fund holds approximately 10.36% shareholding in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. China IC Fund also holds approximately 32.31% equity interest in Sino IC Leasing, therefore Sino IC Leasing is a connected person of the Company under the Listing Rules by virtue of being an associate of a connected person of the Company as defined under rule 14A.13 of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Annual Caps for Finance Related Services exceeds 5%, the transactions contemplated under the Framework Agreement will constitute non-exempt continuing connected transactions subject to the reporting, announcement and Independent Shareholders' approval requirements of Chapter 14A of the Listing Rules. In addition, as one or more of the percentage ratios stipulated under rule 14.07 of the Listing Rules in respect of the Annual Caps for Finance Related Services exceeds 25%, the Framework Agreement also constitutes a major transaction of the Company subject to the reporting, announcement and shareholders' approval requirements of Chapter 14 of the Listing Rules.

As the applicable percentage ratios in respect of the Annual Caps for Other Related Services are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements, but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

In accordance with the Listing Rules, the Independent Board Committee has been established to advise and provide recommendation to the Independent Shareholders on the Framework Agreement (including the Annual Caps) and the transactions contemplated thereunder and to advise the Independent Shareholders on how to vote.

Messis Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Framework Agreement (including the Annual Caps) and the transactions contemplated thereunder. Furthermore, as the term of the Framework Agreement exceeds three years, pursuant to rule 14A.52 of the Listing Rules, the Independent Financial Adviser will also explain why a period longer than three years is required and confirm whether it is normal business practice for an agreement of this type to be of such duration.

GENERAL

At the EGM, an ordinary resolution will be proposed to the Independent Shareholders to approve the Framework Agreement and the transactions contemplated thereunder.

As China IC Fund is a connected person of the Company, its wholly-owned subsidiary Xinxin (Hong Kong) Capital Co., Limited and its other associates (as defined in the Listing Rules) will abstain from voting on the ordinary resolution to approve the Framework Agreement and the transactions contemplated thereunder. Apart from Xinxin (Hong Kong) Capital Co., Limited and other associates of China IC Fund, no other Shareholder will be required to abstain from voting on this resolution at the EGM.

The Company expects to dispatch a circular to the Shareholders on or around 20 October 2020 as time is needed to finalise the contents therein. The circular will contain, among other things, (i) further details on the Framework Agreement; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders (including its opinion on the term of the Framework Agreement) together with (iv) a notice convening the EGM.

FRAMEWORK AGREEMENT

Reference is made to the announcements of the Company dated 30 March 2016 and 10 August 2016 and the circular of the Company dated 26 July 2016 in relation to the 2016 Framework Agreement entered into between the Company and Sino IC Leasing. As the 2016 Framework Agreement will expire on 31 December 2020, the Company and Sino IC Leasing agreed to renew and continue the transactions originally covered under the 2016 Framework Agreement by entering into the Framework Agreement. The Company announces that on 4 September 2020, the Company (on behalf of itself and entities within the scope of its consolidated accounting statements) and Sino IC Leasing (on behalf of itself and its subsidiaries) entered into the Framework Agreement, pursuant to which Sino IC Leasing will provide to the Company a range of finance related services (including but not limited to leasing and factoring) and certain other related services (including but not limited to financial advisory and consulting services). The principal terms of the Agreement are set out below.

Execution date: 4 September 2020

Parties: (i) the Company (on behalf of itself and entities within the scope of its consolidated accounting statements); and
(ii) Sino IC Leasing (on behalf of itself and its subsidiaries).

Effective period: Effective from 1 January 2021 or the date when all the necessary approvals required under the applicable law, the articles of associations of the parties and the requirements of the Stock Exchange and the SSE are obtained, whichever is later, and ending on 31 December 2025.

The Directors are of the view that the services to be provided by Sino IC Leasing to the Company pursuant to the Framework Agreement are important to the business operations of the Company and that it is in the interests of the Company and the Shareholders as a whole to have a term of a longer period.

Termination: The Framework Agreement may only be terminated by the parties' written mutual consent. Two months before the expiry date, the parties will negotiate whether to renew or terminate the Agreement.

Scope of services

Sino IC Leasing will support the needs of the Company in its business expansion for funds in both RMB and other foreign currencies. Sino IC Leasing will provide the following services to the Company within the scope permitted by the relevant PRC laws, regulations and policies, regulations of the China Banking and Insurance Regulatory Commission, as well as the internal operational and management policies of the Company:

1. *Finance related services (“Finance Related Services”)*

The finance related services which Sino IC Leasing will provide to the Company include but are not limited to leasing and factoring.

- Leasing: Under the lease arrangements between the Company and Sino IC Leasing, the Company as lessee shall pay rental to Sino IC Leasing as lessor for the use of specified assets during the term of the relevant operative agreement.
- Factoring: the Company may transfer a portion of its account receivables to Sino IC Leasing, which shall be used as a source of funding for the Company.

2. *Other related services (“Other Related Services”)*

The other related services which Sino IC Leasing will provide to the Company include but are not limited to financial advisory and consulting services.

Pricing policy

The price for the services provided by Sino IC Leasing to the Company contemplated under the Framework Agreement will be determined by reference to the current market conditions and the terms (including the prices) which are comparable to the quotes from independent third parties (to the extent available) providing services of a similar nature with comparable scale in the ordinary and usual course of business based on normal commercial terms and on arm's length negotiations, as well as the reasonable market prices which are applicable around that time, subject to compliance with requirements for related party transactions and connected transactions of the Stock Exchange and the SSE. The above pricing policy is applicable to all services to be provided pursuant to the Framework Agreement. Before the Company enters into any transactions with Sino IC Leasing, it will seek a quote from two or more comparable independent third party (to the extent possible). Upon receipt of the quote, the Company will compare the quote against the terms and conditions provided by Sino IC Leasing and will only approve the proposed transaction with Sino IC Leasing if the terms and conditions (including the price) provided by Sino IC Leasing are equal to or more favourable than those submitted by the independent third party.

Other terms

The obligations of the parties under the Framework Agreement are subject to compliance with applicable laws and regulations (including those of regulatory authorities such as the Stock Exchange and the SSE).

Under the premise of compliance with the Framework Agreement, the Company and Sino IC Leasing will further enter into separate operative contracts or agreements in respect of the provision of specific services and determine the specific terms of the transaction. Such separate operative contracts or agreements will be entered into in accordance with the principles and terms of the Framework Agreement as well as the requirements of the applicable laws.

Payment

The separate operative agreements which the Company and Sino IC Leasing will further enter into may include direct lease or sale-and-leaseback arrangements. Under the direct lease arrangements, Sino IC Leasing will directly purchase the new machinery as required by the Company and lease the same to the Company for its use. Under the sale-and-leaseback arrangements, the Company will sell its own machinery to Sino IC Leasing and lease back the sold machinery from Sino IC Leasing. Under both types of agreements, the Company will pay rental to Sino IC Leasing. Upon expiry of the lease term of the sale-and-leaseback arrangements, the Company may purchase the machinery from Sino IC Leasing at a consideration to be negotiated and determined by both parties.

The consideration for the transactions contemplated under the Framework Agreement will be paid in accordance with the separate operative agreements and funded by the relevant party's internal resources.

ANNUAL CAPS AND BASIS OF DETERMINATION

Historical Transaction Amounts

The historical transaction amounts between the Company and Sino IC Leasing for the transactions contemplated under the 2016 Framework Agreement are as follows:

| Nature of Continuing Connected Transactions | For the year ending 31 December | | | | From 1 January 2020 to 31 July 2020 ⁽³⁾ |
|--|---|---|---|---|---|
| | 2016 ⁽¹⁾⁽²⁾ (US\$ million) | 2017 ⁽¹⁾⁽²⁾ (US\$ million) | 2018 ⁽¹⁾⁽²⁾ (US\$ million) | 2019 ⁽¹⁾⁽²⁾ (US\$ million) | (US\$ million) |
| 2016 Finance Related Services (the maximum rental and fees charged for provision of 2016 Finance Related Services per calendar year) | — | 45.6 | 87.1 | 89.2 | 59.3 |
| 2016 Other Related Services (the maximum fees charged for provision of 2016 Other Related Services per calendar year) | — | — | — | — | — |

Notes:

- (1) Representing the amounts of all transactions between the Company and Sino IC Leasing for the year ended 31 December 2016, 31 December 2017, 31 December 2018 and 31 December 2019, respectively.
- (2) Audited.
- (3) Unaudited.

Annual Caps

The Annual Caps under the Framework Agreement are set out below:

Nature of Continuing Connected Transactions

| | For the year ending 31 December | | | | |
|---|---------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 2021 (US\$ million) | 2022 (US\$ million) | 2023 (US\$ million) | 2024 (US\$ million) | 2025 (US\$ million) |
| Finance Related Services | | | | | |
| — Leasing (Sale-and-Leaseback Arrangements) | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| — Leasing (Direct Lease and Other Arrangements) | 800 | 800 | 800 | 800 | 800 |
| — Factoring | 200 | 200 | 200 | 200 | 200 |
| Other Related Services | 50 | 50 | 50 | 50 | 50 |

The Annual Caps are determined based on the principal factors as explained below:

Finance Related Services

The Annual Caps for the sale-and-leaseback arrangements under the Finance Related Services are set based on the maximum amount of asset value that may be transferred to Sino IC Leasing under the sale and leaseback arrangements per calendar year.

The Annual Caps for the direct lease and other arrangements under the Finance Related Services are set based on the total value of right-of-use assets relating to the new direct lease arrangements and the renewal of existing sale-and-leaseback arrangements per calendar year and the maximum amount of asset value that may be purchased by the Company from Sino IC Leasing upon expiry of the lease term of the sale-and-leaseback arrangements per calendar year.

When determining the Annual Caps above, the Company has also taken in account the anticipated increase in total assets of the Group and the financial needs of the Group for its future business expansion.

The Annual Caps for the factoring transactions under the Finance Related Services are set based on the principal and interests of the new factoring services per calendar year.

Other Related Services

The Annual Caps for the Other Related Services are set based on the maximum fees charged for the provision of Other Related Services per calendar year with reference to the anticipated business needs of the Group and the future development plan of the Group.

REASONS FOR AND BENEFITS OF THE FRAMEWORK AGREEMENT

The reasons for the Company to enter into the Framework Agreement are as follows:

1. the entering into of the Framework Agreement with Sino IC Leasing will enable the Group to broaden its existing financing channels to fulfill its funding needs for future capital expenditure; and
2. optimise the existing machinery of the Company and increase operating cash flow.

The Directors (excluding independent non-executive Directors whose view will be given after taking into account the advice from the Independent Financial Adviser) consider that it is in the best interests of the Company and the Shareholders as a whole to enter into the Framework Agreement and the transactions contemplated thereunder; the terms of the Framework Agreement are fair and reasonable; and the entering into of the Framework Agreement and the transactions contemplated under the Framework Agreement are on normal commercial terms or better in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As China IC Fund holds approximately 10.36% shareholding in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. China IC Fund holds approximately 32.31% equity interest in Sino IC Leasing, therefore Sino IC Leasing is a connected person of the Company under the Listing Rules by virtue of being an associate of a connected person of the Company as defined under rule 14A.13 of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Annual Caps for Finance Related Services exceeds 5%, the transactions contemplated under the Framework Agreement will constitute non-exempt continuing connected transactions subject to reporting, announcement and the Independent Shareholders' approval requirements of Chapter 14A of the Listing Rules. In addition, as one or more of the percentage ratios stipulated under rule 14.07 of the Listing Rules in respect of the Annual Caps for Finance Related Services exceeds 25%, the Framework Agreement also constitutes a major transaction of the Company subject to the reporting, announcement and shareholders' approval requirements of Chapter 14 of the Listing Rules.

As the applicable percentage ratios in respect of the Annual Caps for Other Related Services are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements, but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

In accordance with the Listing Rules, an Independent Board Committee has been established to advise and provide recommendation to the Independent Shareholders on the Framework Agreement (including the Annual Caps) and the transactions contemplated thereunder and to advise the Independent Shareholders on how to vote.

Messis Capital Limited has been appointed by the Company as an Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Framework Agreement (including the Annual Caps) and the transactions contemplated thereunder. Furthermore, as the term of the Framework Agreement exceeds three years, pursuant to rule 14A.52 of the Listing Rules, the Independent Financial Adviser will also explain why a period longer than three years is required and confirm whether it is normal business practice for an agreement of this type to be of such duration.

INFORMATION ABOUT THE PARTIES

Information of the Company

SMIC and its subsidiaries collectively constitute one of the leading foundries in the world, is Mainland China's most advanced and largest foundry, broadest in technology coverage, and most comprehensive in semiconductor manufacturing services. The Group provides integrated circuit (IC) foundry and technology services on process nodes from 0.35 micron to 14 nanometer. Headquartered in Shanghai, China, The Group has an international manufacturing and service base. In China, SMIC has a 300mm wafer fabrication facility (fab), a 200mm fab and a majority-owned joint-venture 300mm fab for advanced nodes in Shanghai; a 300mm fab and a majority-owned 300mm fab for advanced nodes in Beijing; 200mm fabs in Tianjin and Shenzhen; and a majority-owned joint-venture 300mm bumping facility in Jiangyin. The Group also has marketing and customer service offices in the U.S., Europe, Japan, and Taiwan China, and a representative office in Hong Kong.

Information of Sino IC Leasing

Led by China IC Fund (as the single largest shareholder holding approximately 32.31% equity interest in Sino IC Leasing), together with the joint venture of other leading companies in the industry and marketing institutions (each holding less than 10% equity interest), Sino IC Leasing is set up as the first finance lease company to provide professional services to the integrated circuit industry. Sino IC Leasing will strategically carry out a range of services, such as leasing in domestic and foreign currencies by direct finance leasing, leaseback and operating lease; ancillary commercial factoring and consulting.

Sino IC Leasing is primarily engaged in providing financial support to the development of the integrated circuit industry and related industries, promoting the construction and upgrade of production lines among the leading integrated circuit manufacturing companies in China, attending to the underlying demands of IC design industry and its supporting companies at the same time, as well as facilitating the coordination, interaction and development of the integrated circuit equipment industry and the relevant links of the industry chain. China IC Fund, incorporated in September 2014, mainly invests in the value chain of integrated circuit industry via equity investment, primarily in integrated circuit chip manufacturing as well as chip designing, packaging test and equipment and materials. There are 16 fund investors in China IC Fund. For further details about the shareholders of China IC Fund, please refer to the circular of the Company dated 6 June 2020.

GENERAL

At the EGM, an ordinary resolution will be proposed to the Independent Shareholders to approve the Framework Agreement and the transactions contemplated thereunder.

As China IC Fund is a connected person of the Company, its wholly-owned subsidiary Xinxin (Hong Kong) Capital Co., Limited and its other associates (as defined in the Listing Rules) will abstain from voting on the ordinary resolution to approve the Framework Agreement and the transactions contemplated thereunder. Apart from Xinxin (Hong Kong) Capital Co., Limited and other associates of China IC Fund, no other Shareholder will be required to abstain from voting on this resolution at the EGM.

Dr. Gao Yonggang, who is a Class I executive Director, also is a director of Sino IC Leasing. Mr. Lu Jun, who is a Class II non-executive Director and a member of the nomination committee of the Company, is a director of Sino IC Leasing. As such, both Dr. Gao and Mr. Lu have abstained from voting on the relevant board resolutions in respect of the Framework Agreement.

The Company expects to dispatch a circular to the Shareholders on or around 20 October 2020 as time is needed to finalise the contents therein. The circular will contain, among other things, (i) further details on the Framework Agreement; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders (including its opinion on the term of the Framework Agreement) together with (iv) a notice convening the EGM.

The Framework Agreement and the transactions contemplated thereunder are also required to be disclosed at SSE as they constitute related transactions pursuant to the relevant rules of the Science and Technology Innovation Board of the SSE.

DEFINITIONS

In this announcement, the following words have the following meanings unless the context requires otherwise:

| | |
|---------------------------------|---|
| “2016 Finance Related Services” | the finance related services which Sino IC Leasing provides to the Company, including but are not limited to leasing, factoring, loan entrustment, bills acceptance and discounting services, pursuant to the 2016 Framework Agreement |
| “2016 Framework Agreement” | the framework agreement entered into between the Company and Sino IC Leasing on 30 March 2016 which will expire on 31 December 2020 |
| “2016 Other Related Services” | the other related services which Sino IC Leasing provides to the Company, including but are not limited to financial advisory and consulting services, pursuant to the 2016 Framework Agreement |
| “Annual Caps” | annual caps for the years ending 31 December 2021, 2022, 2023, 2024 and 2025 in relation to the Finance Related Services and Other Related Services contemplated under the Framework Agreement which are more fully set out in the section headed “Annual Caps and Basis of Determination — Annual Caps” in this announcement |

| | |
|---------------------------------|---|
| “Board” | the board of Directors |
| “China IC Fund” | China Integrated Circuit Industry Investment Fund Co., Ltd. (國家集成電路產業投資基金股份有限公司), a company established under the laws of the PRC |
| “Company” or “SMIC” | Semiconductor Manufacturing International Corporation (中芯國際集成電路製造有限公司*), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange and the Science and Technology Innovation Board of the SSE |
| “Director(s)” | the director(s) of the Company |
| “EGM” | the extraordinary general meeting of the Company proposed to be held to approve, among other things, the Framework Agreement and the transactions contemplated thereunder |
| “Framework Agreement” | the framework agreement dated 4 September 2020 entered into between the Company (on behalf of itself and entities within the scope of its consolidated accounting statements) and Sino IC Leasing (on behalf of itself and its subsidiaries) |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | the independent committee of the Board that consists of all independent non-executive Directors who have no direct or indirect interest in the Framework Agreement, other than, where applicable, being a Shareholder |
| “Independent Financial Adviser” | the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreement |
| “Independent Shareholders” | in relation to the Framework Agreement, Shareholders other than Xinxin (Hong Kong) Capital Co., Limited and other associates of China IC Fund (as defined in the Listing Rules) |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited |
| “PRC” | the People’s Republic of China, but for the purposes of this announcement only, excludes Hong Kong, Macau and Taiwan |

| | |
|-------------------|--|
| “Shareholders” | holder(s) of Shares |
| “Shares” | ordinary shares of par value US\$0.004 each in the capital of the Company |
| “Sino IC Leasing” | Sino IC Leasing Co., Ltd.* (芯鑫融資租賃有限責任公司), a limited liability company incorporated in the PRC |
| “SSE” | the Shanghai Stock Exchange; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “United States” | the United States of America |
| “US\$” | United States dollar, the lawful currency of the United States of America |

Semiconductor Manufacturing International Corporation
Gao Yonggang
Executive Director, Chief Financial Officer
and Joint Company Secretary

Shanghai, 4 September 2020

As at the date of this announcement, the directors of the Company are:

Executive Directors

Zhou Zixue (*Chairman*)

Zhao HaiJun (*Co-Chief Executive Officer*)

Liang Mong Song (*Co-Chief Executive Officer*)

Gao Yonggang (*Chief Financial Officer and Joint Company Secretary*)

Non-executive Directors

Chen Shanzhi

Zhou Jie

Ren Kai

Lu Jun

Tong Guohua

Independent Non-executive Directors

William Tudor BROWN

CONG Jingsheng Jason

LAU Lawrence Juen-Yee

FAN Ren Da Anthony

YOUNG Kwang Leei

* For identification purposes only